

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Rockcastle County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$224,744 from the beginning of the year, resulting in a cash surplus of \$619,873 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$1,380,000. Future collections of \$1,775,293 are needed over the next ten (10) years to pay all bonded debt principal and interest.

Other debt obligations totaled \$3,082,847 as of June 30, 2003. Future principal and interest payments of \$4,394,989 are needed to meet these obligations.

Report Comments:

- The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- The County Should Properly Account For Encumbrances
- Budget Amendments Should Be Properly Recorded In Financial Statements
- The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank On The County's 4th Quarter Financial Report
- Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger
- Disbursements Listed On Fourth Quarter Financial Report Should Agree With Disbursements Ledger
- The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County
- The County Did Not Maintain Inventory Records As Required By The Governor's Office For Local Development
- The County Treasurer Should Resolve Unexplained Variances When Preparing Bank Reconciliations
- The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities
- The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account
- The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Authorizations Set By The Governor's Office For Local Development
- The County Should Not Participate In Related Party Transactions

**EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY FISCAL COURT
For The Fiscal Year Ended
June 30, 2003
(Continued)**

Report Comments: (Continued)

- The Fiscal Court Should Approve All Transfers
- Prior Year Transfers From Restricted Funds Should Be Returned
- The County Should Limit Expenditures For First Half Of Each Fiscal Year
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days
- The Rockcastle Fiscal Court Lacks An Adequate Segregation Of Duties
- Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made
- The Jailer Should Maintain Receipts And Disbursements Journals For Jail Canteen Operations
- The Jailer Should Prepare Monthly Bank Reconciliations For The Jail Canteen Account
- The Jail Canteen Should Have An Interest Bearing Checking Account
- The County Treasurer Should Properly Prepare A Federal Monies Worksheet
- The County Should Require Contractors To Submit Certifications Regarding Suspension And Debarment
- The County Should Submit All Applicable Reports As Required By Grant Agreements

Deposits:

As of August 31, 2002, \$365,096 of the fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Rockcastle County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances – governmental fund types; the statement of cash receipts, cash disbursements and changes in cash balances – proprietary fund; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Rockcastle County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Rockcastle County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Rockcastle County, Kentucky, as of June 30, 2003, and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
 Honorable Ernie Fletcher, Governor
 John R. Farris, Secretary
 Finance and Administration Cabinet
 Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
 Members of the Rockcastle County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2005 on our consideration of Rockcastle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Rockcastle County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discuss the following report comments:

- The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- The County Should Properly Account For Encumbrances
- Budget Amendments Should Be Properly Recorded In Financial Statements
- The Cash Balance Per the County's Books Should Agree With The Reconciled Cash Balance Per The Bank On The County's 4th Quarter Financial Report
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- The County Should Not Participate In Related Party Transactions
- The Fiscal Court Should Approve All Transfers
- Prior Year Transfers From Restricted Funds Should Be Returned
- The County Should Limit Expenditures For First Half Of Each Fiscal Year

To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the Rockcastle County Fiscal Court

- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days
- The Rockcastle County Fiscal Court Lacks An Adequate Segregation Of Duties
- Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made
- The Jailer Should Maintain Receipts And Disbursements Journals For Jail Canteen Operations
- The Jailer Should Prepare Monthly Bank Reconciliations For The Jail Canteen Account
- The Jail Canteen Should Have An Interest Bearing Checking Account
- The County Treasurer Should Properly Prepare A Federal Monies Worksheet
- The County Should Require Contractors To Submit Certifications Regarding Suspension And Debarment
- The County Should Submit All Applicable Reports As Required By Grant Agreements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 26, 2005

ROCKCASTLE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

| | |
|-------------------------|------------------------|
| George (Buzz) Carloftis | County Judge/Executive |
| John Holbrook | Magistrate |
| Jack R. Bradley | Magistrate |
| Billy R. McKinney | Magistrate |
| Fred Mullins, Jr. | Magistrate |
| Donald Bullock | Magistrate |

Other Elected Officials:

| | |
|---------------------|----------------------------------|
| William D. Reynolds | County Attorney |
| James E. Miller | Jailer |
| Norma Houk | County Clerk |
| Teresa Vanzant | Circuit Court Clerk |
| Darrell Doan | Sheriff |
| Margaret Offutt | Property Valuation Administrator |
| Billy M. Dowell | Coroner |

Appointed Personnel:

| | |
|------------------|------------------|
| Joseph B. Clontz | County Treasurer |
| Anna R. Mullins | Finance Officer |

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ROCKCASTLE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

| | Governmental Fund Types | | | | Proprietary Fund Type | Totals (Memo Only) Reporting Entity |
|-----------------------------------|-------------------------|--------------------|-----------------|------------|-----------------------------|--|
| | General | Special Revenue | Debt Service | Enterprise | | |
| <u>Assets and Other Resources</u> | | | | | | |
| <u>Assets</u> | | | | | | |
| Cash and Cash Equivalents | \$ 180,920 | \$ 121,934 | \$ 225,500 | \$ 91,519 | \$ | 619,873 |
| Receivables (Note 4) | 230,758 | | | | | 230,758 |
| Due From Other Funds (Note 5) | 19,202 | 21,571 | | | | 40,773 |
| Restricted Cash- | | | | | | |
| Payroll Revolving Account | 15,734 | | | | | 15,734 |
| Total Assets | 446,614 | 143,505 | 225,500 | 91,519 | | 907,138 |
| <u>Other Resources</u> | | | | | | |
| Amounts to Be Provided | | | | | | |
| in Future Years for: | | | | | | |
| Capital Leases (Note 7. A-J) | 2,425,449 | 130,900 | | | | 2,556,349 |
| Short-term Debt (Note 8) | 300,000 | | | | | 300,000 |
| Long-term Debt (Note 9.A) | 226,498 | | | | | |
| Bond Payments (Note 9.B) | | | 1,380,000 | | | 1,380,000 |
| Total Other Resources | 2,951,947 | 130,900 | 1,380,000 | | | 4,462,847 |
| Total Assets and Other Resources | \$ 3,398,561 | \$ 274,405 | \$ 1,605,500 | \$ 91,519 | \$ | 5,369,985 |

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

| | Governmental Fund Types | | | Proprietary Fund Type | Totals (Memo Only) Primary Government |
|-----------------------------------|-------------------------|--------------------|-----------------|-----------------------------|--|
| | General | Special Revenue | Debt Service | Enterprise | |
| <u>Liabilities and Equity</u> | | | | | |
| <u>Liabilities</u> | | | | | |
| Due to Other Funds (Note 6) | \$ 38,675 | \$ 1,843 | \$ | \$ 255 | \$ 40,773 |
| Capital Leases (Note 7. A-J) | 2,425,449 | 130,900 | | | 2,556,349 |
| Short-term Debt (Note 8) | 300,000 | - | | | 300,000 |
| Long-term Debt (Note 9.A) | 226,498 | | | | |
| Bond Payments (Note 9.B) | | | 1,380,000 | | 1,380,000 |
| Withholding Revolving Liabilities | 15,734 | | | | 15,734 |
| Total Liabilities | 3,006,356 | 132,743 | 1,380,000 | 255 | 4,519,354 |
| <u>Equity</u> | | | | | |
| Retained Earnings: | | | | | |
| Restricted | | | | 91,264 | 91,264 |
| Fund Balances: | | | | | |
| Unreserved | 392,205 | 141,662 | | | 533,867 |
| Reserved | | | 225,500 | | 225,500 |
| Total Equity | 392,205 | 141,662 | 225,500 | 91,264 | 850,631 |
| Total Liabilities and Equity | \$ 3,398,561 | \$ 274,405 | \$ 1,605,500 | \$ 91,519 | \$ 5,369,985 |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ROCKCASTLE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

| | General Fund Type | | | |
|---|-------------------|----------------------------|------------|---|
| | General Fund | Road and Bridge Fund | Jail Fund | Local Government Economic Assistance Fund |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 961,708 | \$ 1,560,477 | \$ 742,329 | \$ 55,564 |
| Receipts - Jail Canteen | | | | |
| Other Financing Sources: | | | | |
| Transfers In | 121,200 | 115,000 | 15,000 | |
| AOC Bond Proceeds | | | | |
| Lease Proceeds | 55,000 | 300,000 | | |
| Total Cash Receipts | 1,137,908 | 1,975,477 | 757,329 | 55,564 |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | 1,027,915 | 1,668,876 | 795,914 | 54,342 |
| Expenditures - Jail Canteen | | | | |
| Other Financing Uses: | | | | |
| Principal on Notes | 17,199 | | | |
| Principal on Leases | 10,390 | 143,952 | 52,143 | |
| Bonds: | | | | |
| Principal Paid | | | | |
| Interest Paid | | | | |
| Transfers Out | 147,209 | 115,000 | | |
| Total Cash Disbursements | 1,202,713 | 1,927,828 | 848,057 | 54,342 |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | (64,805) | 47,649 | (90,728) | 1,222 |
| Cash Balance - July 1, 2002 | 80,393 | 79,521 | 120,010 | 7,658 |
| Cash Balance - June 30, 2003 | \$ 15,588 | \$ 127,170 | \$ 29,282 | \$ 8,880 |

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

| | Special Revenue Fund Type | | | |
|---|---------------------------------|------------------|------------|-------------|
| | Economic Development Fund | Forestry Fund | 911 Fund | DES Fund |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 32,511 | \$ 1,634 | \$ 164,819 | \$ |
| Receipts - Jail Canteen | | | | |
| Other Financing Sources: | | | | |
| Transfers In | | | | |
| A OC Bond Proceeds | | | | |
| Lease Proceeds | | | | |
| Total Cash Receipts | 32,511 | 1,634 | 164,819 | |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | 14,152 | 2,172 | 149,796 | |
| Expenditures - Jail Canteen | | | | |
| Other Financing Uses: | | | | |
| Principal on Notes | 12,000 | | | |
| Principal on Leases | | | 13,743 | |
| Bonds: | | | | |
| Principal Paid | | | | |
| Interest Paid | | | | |
| Transfers Out | | | | |
| Total Cash Disbursements | 26,152 | 2,172 | 163,539 | |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | 6,359 | (538) | 1,280 | |
| Cash Balance - July 1, 2002 | 28,795 | 616 | 67,078 | 664 |
| Cash Balance - June 30, 2003 | \$ 35,154 | \$ 78 | \$ 68,358 | \$ 664 |

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

| | Special Revenue Fund Type | | | |
|---|---------------------------|---------------------------|---------------------|--|
| | CSEPP Fund | Animal Shelter Fund | Fairgrounds Fund | Kentucky Country Music Hall Of Fame Fund |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 79,135 | \$ 6,200 | \$ 12,481 | \$ 381 |
| Receipts - Jail Canteen | | | | |
| Other Financing Sources: | | | | |
| Transfers In | | | | |
| AOC Bond Proceeds | | | | |
| Lease Proceeds | | | | |
| Total Cash Receipts | <u>79,135</u> | <u>6,200</u> | <u>12,481</u> | <u>381</u> |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | 98,317 | 31,352 | 8,542 | 101,930 |
| Expenditures - Jail Canteen | | | | |
| Other Financing Uses: | | | | |
| Principal on Notes | | | | |
| Principal on Leases | | | | |
| Bonds: | | | | |
| Principal Paid | | | | |
| Interest Paid | | | | |
| Transfers Out | | 6,200 | | |
| Total Cash Disbursements | <u>98,317</u> | <u>37,552</u> | <u>8,542</u> | <u>101,930</u> |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | (19,182) | (31,352) | 3,939 | (101,549) |
| Cash Balance - July 1, 2002 | <u>25,682</u> | <u>31,352</u> | <u>7,206</u> | <u>101,549</u> |
| Cash Balance - June 30, 2003 | <u>\$ 6,500</u> | <u>\$</u> | <u>\$ 11,145</u> | <u>\$</u> |

The accompanying notes are an integral part of the financial statements.

ROCKCASTLE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

| | Special Revenue Fund Type | Debt Service Fund type | Enterprise Fund Type | |
|---|---|---|----------------------------|--------------------------------|
| | Animal Shelter Dog License Fund | Public Properties Corporation Fund | Jail Canteen Account | Totals (Memorandum Only) |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 115 | \$ 2,429 | \$ | \$ 3,619,783 |
| Receipts - Jail Canteen | | | 81,110 | 81,110 |
| Other Financing Sources: | | | | - |
| Transfers In | | 17,209 | | 268,409 |
| AOC Bond Proceeds | | 150,770 | | 150,770 |
| Lease Proceeds | | | | 355,000 |
| | | | | - |
| Total Cash Receipts | 115 | 170,408 | 81,110 | 4,475,072 |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | 80 | | | 3,953,388 |
| Expenditures - Jail Canteen | | | 58,694 | 58,694 |
| Other Financing Uses: | | | | |
| Principal on Notes | | | | 29,199 |
| Principal on Leases | | | | 220,228 |
| Bonds: | | | | |
| Principal Paid | | 100,000 | | 100,000 |
| Interest Paid | | 69,898 | | 69,898 |
| Transfers Out | | | | 268,409 |
| Total Cash Disbursements | 80 | 169,898 | 58,694 | 4,699,816 |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | 35 | 510 | 22,416 | (224,744) |
| Cash Balance - July 1, 2002 | | 224,990 | 69,103 | 844,617 |
| Cash Balance - June 30, 2003 | \$ 35 | \$ 225,500 | \$ 91,519 | \$ 619,873 |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPES

ROCKCASTLE COUNTY
STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

| | <u>Enterprise Fund</u> |
|---|---------------------------------|
| | <u>Jail Canteen</u> |
| Cash Flows From Operating Activities: | |
| Cash Received From Inmate Sales | <u>\$ 81,110</u> |
| Net Cash Provided (Used) By Operating Activities | <u>\$ 81,110</u> |
| Reconciliation of Operating Income (Loss) to Net Cash | |
| Provided (Used) by Operating Activities: | |
| Operating Income (Loss) | \$ 22,416 |
| Net Changes in Assets and Liabilities: | |
| Inventories | <u>58,694</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ 81,110</u></u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Rockcastle County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the Public Properties Corporation Fund and the Jail Canteen Fund as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's government body consists entirely of Fiscal Court members. Therefore, management must include the Corporation's as part of the reporting entity, and the Corporation's financial activity will be blended with that of the Fiscal Court.

Additional Rockcastle County Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

Kentucky law provides for election of the above officials from the geographic area constituting Rockcastle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Rockcastle County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Rockcastle County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Rockcastle County Special Revenue Fund Type includes the following county funds: Economic Development Fund, Forestry Fund, 911 Fund, DES Fund, CSEPP Fund, Fairgrounds Fund, Kentucky Country Music Hall of Fame Fund, Animal Shelter Fund, and the Animal Shelter Dog License Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Rockcastle County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Rockcastle County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on this criterion, the Western Rockcastle County Water Association, the Eastern Rockcastle County Water Association, the Ambulance Service, and the Industrial Development are considered related organizations of Rockcastle County Fiscal Court.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 30, 2003 the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, as of August 31, 2002 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$365,096 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with the depository institution securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

| | <u>Bank Balance</u> |
|--|--------------------------|
| FDIC insured | \$ 100,000 |
| Collateralized with securities held by pledging depository institution in the county's name | 99,630 |
| Uncollateralized and uninsured | <u>365,096</u> |
| Total | <u><u>\$ 564,726</u></u> |

Note 4. Receivables

A. Kentucky Highlands Real Estate Corporation

The County loaned \$30,000 to Kentucky Highlands Real Estate Corporation on September 14, 1994, for the purpose of meeting current obligations. Terms of the agreement stipulate a ten-year repayment schedule at 3 percent interest. Kentucky Highlands Real Estate Corporation is in substantive compliance with the terms of the agreement.

| | |
|------------------------------|----------|
| Balance Due at June 30, 2003 | \$ 4,260 |
|------------------------------|----------|

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Receivables (Continued)

B. Western Rockcastle County Water Association

The County loaned \$364,572 to Western Rockcastle County Water Association on June 1, 1994, for the purpose of constructing a waterline. Terms of the agreement stipulate a twenty-year semi-annual repayment schedule at 2.95 percent interest. Western Rockcastle County Water Association is in substantial compliance with the terms of the agreement.

| | |
|---|--------------------------|
| Balance Due at June 30, 2003 | <u>\$ 226,498</u> |
| Total Receivables Due General Fund at June 30, 2003 | <u><u>\$ 230,758</u></u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Due from Other Funds at June 30, 2003

A. Road and Bridge Fund

| | |
|--------------------------------------|----------|
| Due from Disaster and Emergency Fund | \$ 1,843 |
|--------------------------------------|----------|

B. Jail Fund

| | |
|-----------------------|----------|
| Due from General Fund | \$ 4,094 |
|-----------------------|----------|

| | |
|-------------------------------|--------|
| Due from Road and Bridge Fund | 13,010 |
|-------------------------------|--------|

| | |
|----------------------------|-----|
| Due from Jail Canteen Fund | 255 |
|----------------------------|-----|

| | |
|------------------------------|-----------|
| Balance Due at June 30, 2003 | \$ 17,359 |
|------------------------------|-----------|

C. Local Government Economic Development Fund

| | |
|-----------------------|-----------|
| Due from General Fund | \$ 21,571 |
|-----------------------|-----------|

Note 6. Due to Other Funds at June 30, 2003

A. General Fund

| | |
|------------------|----------|
| Due to Jail Fund | \$ 4,094 |
|------------------|----------|

| | |
|---|--------|
| Due to Local Government Economic Development Fund | 21,571 |
|---|--------|

| | |
|------------------------------|-----------|
| Balance Due at June 30, 2003 | \$ 25,665 |
|------------------------------|-----------|

B. Road and Bridge Fund

| | |
|------------------|-----------|
| Due to Jail Fund | \$ 13,010 |
|------------------|-----------|

C. Disaster and Emergency Fund

| | |
|------------------|--------|
| Due to Jail Fund | \$ 255 |
|------------------|--------|

D. Disaster and Emergency Fund

| | |
|-----------------------------|----------|
| Due to Road and Bridge Fund | \$ 1,843 |
|-----------------------------|----------|

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Capital Lease Agreements

A. Boiler Capital Lease Agreement

On March 27, 2000, the Rockcastle County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust program to purchase a boiler for Rockcastle County. The principal was \$28,755 at variable interest rates for a period of 10 years, with interest and principal payments paid monthly. The principal outstanding as of June 30, 2003 is \$20,776. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 371 | \$ 2,794 |
| 2005 | 316 | 2,875 |
| 2006 | 585 | 2,958 |
| 2007 | 458 | 3,043 |
| 2008 | 327 | 3,131 |
| 2009-2010 | 246 | 5,975 |
| Totals | <u>\$ 2,303</u> | <u>\$ 20,776</u> |

B. Fire Truck Capital Lease Agreement

On March 22, 2002, the Rockcastle County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program to purchase a Fire Truck. The principal was \$47,500 at various interest rates for a period of 7 years, with payment of interest and principal paid monthly. The principal outstanding as of June 30, 2003 is \$40,312. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 841 | \$ 6,434 |
| 2005 | 671 | 6,633 |
| 2006 | 1,031 | 6,621 |
| 2007 | 742 | 6,954 |
| 2008 | 441 | 7,304 |
| 2009 | 125 | 6,366 |
| Totals | <u>\$ 3,851</u> | <u>\$ 40,312</u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Capital Lease Agreements (Continued)

C. DES Equipment Capital Lease Agreement

On June 22, 2001, the Rockcastle County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program to purchase DES equipment. The principal was \$10,076 for a period of 5 years, with interest and principal paid monthly. The principal outstanding as of June 30, 2003, is \$6,450. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 124 | \$ 2,027 |
| 2005 | 76 | 2,089 |
| 2006 | 58 | 2,150 |
| 2007 | 1 | 184 |
| | | |
| Totals | <u>\$ 259</u> | <u>\$ 6,450</u> |

D. Building and Fire Equipment Capital Lease Agreement

On January 23, 2003, the Rockcastle County Fiscal Court entered into an agreement with Kentucky Association of Counties to purchase a building and fire equipment. The principal was \$55,000 for a period of 15 years, with interest due monthly and principal due annually. The principal outstanding at June 30, 2003, is \$55,000. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 2,134 | \$ 2,669 |
| 2005 | 2,026 | 2,785 |
| 2006 | 1,914 | 2,908 |
| 2007 | 1,797 | 3,035 |
| 2008 | 1,674 | 3,168 |
| 2009-2013 | 6,340 | 18,054 |
| 2014-2018 | 2,366 | 22,381 |
| | | |
| Totals | <u>\$ 18,251</u> | <u>\$ 55,000</u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Capital Lease Agreements (Continued)

E. Road Garage Capital Lease Agreement

On July 13, 1999, the Rockcastle County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a road garage. The principal was \$90,000 at an interest rate of 1.90 percent interest for a period of 7 years, with payments due monthly. The principal outstanding as of June 30, 2003 was \$42,873. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Scheduled Interest | Scheduled Principal |
|------------------------------|-----------------------|------------------------|
| 2004 | \$ 699 | \$ 13,496 |
| 2005 | 438 | 13,884 |
| 2006 | 383 | 14,284 |
| 2007 | 4 | 1,209 |
| Totals | <u>\$ 1,524</u> | <u>\$ 42,873</u> |

F. Bridge Construction Capital Lease Agreement

On April 24, 2002, the Rockcastle County Fiscal Court entered into an agreement with the Kentucky Association of Counties for bridge construction. The principal was \$480,000 for a period of 7 years, with interest and principal due monthly. The principal outstanding at June 30, 2003, is \$412,657. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Scheduled Interest | Scheduled Principal |
|------------------------------|-----------------------|------------------------|
| 2004 | \$ 8,619 | \$ 64,855 |
| 2005 | 6,904 | 66,863 |
| 2006 | 10,658 | 66,680 |
| 2007 | 7,755 | 70,033 |
| 2008 | 4,717 | 73,555 |
| 2009 | 1,518 | 70,671 |
| Totals | <u>\$ 40,171</u> | <u>\$ 412,657</u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Capital Lease Agreements (Continued)

G. Jail Renovation Capital Lease Agreement

On May 22, 2001, the Rockcastle County Fiscal Court entered into an agreement with Kentucky Association of Counties for Jail renovation. The principal was \$89,648 for a period of 5 years, with interest and principal due monthly. The principal outstanding at June 30, 2003, is \$57,381. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 1,106 | \$ 18,030 |
| 2005 | 672 | 18,588 |
| 2006 | 515 | 19,125 |
| 2007 | 6 | 1,638 |
| | <hr/> | <hr/> |
| Totals | <u>\$ 2,299</u> | <u>\$ 57,381</u> |

H. 911 System Capital Lease Agreement

On March 21, 2002, the Rockcastle County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program to purchase a 911 System. The principal was \$179,285 at varying interest rates for a period of 10 years, with payments due monthly. The principal outstanding as of June 30, 2003, was \$130,900. Future principal and interest requirements are:

| <u>Fiscal Year Ended June 30</u> | <u>Scheduled Interest</u> | <u>Scheduled Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2004 | \$ 2,339 | \$ 17,607 |
| 2005 | 1,993 | 18,114 |
| 2006 | 3,686 | 18,635 |
| 2007 | 2,883 | 19,172 |
| 2008 | 2,061 | 19,724 |
| 2009-2014 | 1,547 | 37,648 |
| | <hr/> | <hr/> |
| Totals | <u>\$ 14,509</u> | <u>\$ 130,900</u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Capital Lease Agreements (Continued)

I. Road and Bridge Improvements Capital Lease Agreement

On November 19, 1998, the Rockcastle County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust to borrow \$755,000. The proceeds of the lease were to be used to make certain road and bridge improvements in Rockcastle County and pay in full certain outstanding indebtedness, the proceeds of which were used to make necessary road improvements. The principal outstanding at June 30, 2003, is \$495,000. Future principal and interest requirements are:

| Date Due | Interest Due | Principal Amount |
|-------------|-----------------|---------------------|
| 2004 | \$ 23,465 | \$ 70,000 |
| 2005 | 19,965 | 75,000 |
| 2006 | 16,088 | 80,000 |
| 2007 | 11,680 | 85,000 |
| 2008 | 7,350 | 90,000 |
| 2009 | 2,494 | 95,000 |
| Totals | \$ 81,042 | \$ 495,000 |

J. Refinancing of Various Projects Capital Lease Agreement

On August 3, 2000, the Rockcastle County Fiscal Court entered into an agreement with the Kentucky Area Development Districts Financing Trust to borrow \$1,410,000. According to the lease agreement, the proceeds were to be used to permanently finance various projects throughout the county. The principal outstanding at June 30, 2003, is \$1,295,000. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Scheduled Interest | Scheduled Principal |
|------------------------------|-----------------------|------------------------|
| 2004 | \$ 77,636 | \$ 35,000 |
| 2005 | 75,886 | 35,000 |
| 2006 | 74,136 | 35,000 |
| 2007 | 72,308 | 35,000 |
| 2008 | 70,476 | 40,000 |
| 2009-2013 | 318,383 | 230,000 |
| 2014-2018 | 244,008 | 305,000 |
| 2019-2023 | 139,535 | 400,000 |
| 2024-2025 | 20,180 | 180,000 |
| Totals | \$ 1,092,548 | \$ 1,295,000 |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 8. Short-term Debt

Road Improvement Loan Agreement

On January 23, 2003, the County entered into a loan agreement with the Citizen's Bank of Mount Vernon, Kentucky for \$300,000. The proceeds were to be used for road improvement. Terms of the agreement were for a one-year loan at five (5) per cent interest, with principal and interest due at January 23, 2004.

| Date Due | Interest Due | Principal Amount |
|-------------|-----------------|---------------------|
| 2004 | \$ 15,000 | \$ 300,000 |

Note 9. Long-term Debt

A. Kentucky Infrastructure Authority – Waterline for Western Rockcastle Water Association

On June 1, 1994, the Rockcastle County Fiscal Court borrowed \$364,572 from the Kentucky Infrastructure Authority to construct a waterline for the Western Rockcastle Water Association. Terms of the loan are 40 semiannual principal payments of varying amounts and interest of 2.95 percent to be paid semiannually beginning December 1, 1994. The principal outstanding as of June 30, 2003, is \$226,498. Future principal and interest requirements are:

| Fiscal Year Ended June 30 | Scheduled Interest | Scheduled Principal |
|------------------------------|-----------------------|------------------------|
| 2004 | \$ 6,552 | \$ 17,710 |
| 2005 | 6,026 | 18,236 |
| 2006 | 5,484 | 18,778 |
| 2007 | 4,926 | 19,337 |
| 2008 | 4,351 | 19,911 |
| 2009-2013 | 12,520 | 108,790 |
| 2014 | 526 | 23,736 |
| Totals | <u>\$ 40,385</u> | <u>\$ 226,498</u> |

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 9. Long-Term Debt (Continued)

B. Public Properties Corporation Bonds Outstanding - Court Facilities Construction

October 1, 1997, the Rockcastle County Public Properties Corporation issued \$1,830,000 Public Properties First Mortgage Refunding Revenue Bonds, Series 1997. The proceeds were used to pay the remaining principal, interest, principal redemption and redemption premium on the Public Properties Corporation Revenue Bonds, Series 1991, through the March 1, 2001 optional redemption date. The principal outstanding as of June 30, 2003, is \$1,380,000. Future principal and interest requirements are:

| Date Due | Interest Due | Principal Amount |
|-------------|-------------------|---------------------|
| 2004 | \$ 65,298 | \$ 100,000 |
| 2005 | 60,583 | 105,000 |
| 2006 | 55,583 | 110,000 |
| 2007 | 50,266 | 115,000 |
| 2008 | 44,535 | 125,000 |
| 2009-2013 | 119,028 | 825,000 |
| Totals | <u>\$ 395,293</u> | <u>\$ 1,380,000</u> |

Note 10. Related Party Transactions

The Rockcastle County Fiscal Court conducted business with Brodhead Farm Equipment, which is owned by Magistrate Billy McKinney's brother. The county paid Brodhead Farm equipment \$11,248 for equipment and parts during the fiscal year ending June 30, 2003. In addition, the Fiscal Court paid the County Treasurer's accounting firm \$3,000 to perform payroll services for the county. These transactions are considered to be related party transactions.

Note 11. Insurance

For the fiscal year ended June 30, 2003, Rockcastle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1)(2), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 68.210 requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ROCKCASTLE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

| <u>Budgeted Funds</u> | <u>Budgeted Operating Revenue</u> | <u>Actual Operating Revenue</u> | <u>Over (Under) Budget</u> |
|--|---|---|------------------------------------|
| <u>General Fund Type</u> | | | |
| General Fund | \$ 1,024,622 | \$ 961,708 | \$ (62,914) |
| Road and Bridge Fund | 1,860,583 | 1,560,477 | (300,106) |
| Jail Fund | 833,880 | 742,329 | (91,551) |
| Local Government Economic Assistance Fund | 55,920 | 55,564 | (356) |
| <u>Special Revenue Fund Type</u> | | | |
| Economic Development Fund | 274,663 | 32,511 | (242,152) |
| Forestry Fund | 2,135 | 1,634 | (501) |
| 911 Fund | 164,191 | 164,819 | 628 |
| Disaster and Emergency Fund | | | |
| Chemical Stockpile Emergency Preparedness Program Fund | 79,135 | 79,135 | |
| Animal Shelter Fund | | 6,200 | 6,200 |
| Fairgrounds Fund | 12,531 | 12,481 | (50) |
| Kentucky Country Music Hall of Fame Fund | 360 | 381 | 21 |
| Animal Dog License Fund | 120 | 115 | (5) |
| Totals | <u>\$ 4,308,140</u> | <u>\$ 3,617,354</u> | <u>\$ (690,786)</u> |
| <u>Reconciliation</u> | | | |
| Total Budgeted Operating Revenue Above | | | \$ 4,308,140 |
| Add: Budgeted Prior Year Surplus | | | 539,302 |
| Less: Other Financing Uses | | | <u>(254,623)</u> |
| Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures | | | <u>\$ 4,592,819</u> |

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SCHEDULE OF OPERATING REVENUE

ROCKCASTLE COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

| <u>GOVERNMENTAL FUND TYPES</u> | | | | |
|--------------------------------|------------------------------|--|-----------------------------------|---|
| <u>Revenue Categories</u> | <u>General Fund Type</u> | <u>Special Revenue Fund Type</u> | <u>Debt Service Fund Type</u> | <u>Totals (Memorandum Only)</u> |
| Taxes | \$ 711,610 | \$ 165,252 | \$ | \$ 876,862 |
| In Lieu Tax Payments | 45,163 | | | 45,163 |
| Excess Fees | 9,557 | | | 9,557 |
| Licenses and Permits | 12,387 | 115 | | 12,502 |
| Intergovernmental Revenues | 2,439,928 | 85,335 | | 2,525,263 |
| Charges for Services | 21,233 | | | 21,233 |
| Miscellaneous Revenues | 75,667 | 44,498 | | 120,165 |
| Interest Earned | 4,533 | 2,076 | 2,429 | 9,038 |
| Total Operating Revenue | <u>\$ 3,320,078</u> | <u>\$ 297,276</u> | <u>\$ 2,429</u> | <u>\$ 3,619,783</u> |

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ROCKCASTLE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

| Expenditure Categories | GENERAL FUND TYPE | | |
|---|---------------------|--------------------------|---------------------------|
| | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 479,643 | \$ 477,093 | \$ 2,550 |
| Protection to Persons and Property | 828,173 | 757,449 | 70,724 |
| General Health and Sanitation | 125,953 | 124,956 | 997 |
| Social Services | 5,037 | 4,748 | 289 |
| Recreation and Culture | 30,278 | 15,198 | 15,080 |
| Roads | 1,359,760 | 1,305,286 | 54,474 |
| Debt Service | 158,482 | 157,601 | 881 |
| Capital Projects | 430,516 | 367,992 | 62,524 |
| Administration | 406,923 | 336,724 | 70,199 |
| Total Operating Budget - General Fund Type | \$ 3,824,765 | \$ 3,547,047 | \$ 277,718 |
| Other Financing Uses: | | | |
| Debt Service | | | |
| Principal on Debt | 226,599 | 223,684 | 2,915 |
| TOTAL BUDGET - GENERAL FUND TYPE | <u>\$ 4,051,364</u> | <u>\$ 3,770,731</u> | <u>\$ 280,633</u> |

ROCKCASTLE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

| Expenditure Categories | SPECIAL REVENUE FUND TYPE | | |
|---|---------------------------|--------------------------|---------------------------|
| | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 278,400 | \$ 13,192 | \$ 265,208 |
| Protection to Persons and Property | 246,591 | 228,600 | 17,991 |
| General Health and Sanitation | 120 | 80 | 40 |
| Recreation and Culture | 121,552 | 110,541 | 11,011 |
| Debt Service | 7,474 | 5,295 | 2,179 |
| Capital Projects | 31,351 | 31,352 | (1) |
| Administration | 82,566 | 17,281 | 65,285 |
| Total Operating Budget - Special Revenue Fund Type | \$ 768,054 | \$ 406,341 | \$ 361,713 |
| Other Financing Uses: | | | |
| Debt Service | | | |
| Principal on Debt | 28,024 | 25,743 | 2,281 |
| TOTAL BUDGET - SPECIAL REVENUE FUND TYPE | <u>\$ 796,078</u> | <u>\$ 432,084</u> | <u>\$ 363,994</u> |

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Rockcastle County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Rockcastle County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- 2003-01 The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- 2003-02 The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- 2003-08 The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County
- 2003-09 The County Did Not Maintain Inventory Records As Required By The Governor's Office For Local Development
- 2003-13 The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Authorizations Set By The Governor's Office Of Local Development
- 2003-14 The County Should Not Participate In Related Party Transactions
- 2003-15 The Fiscal Court Should Approve All Transfers
- 2003-16 Prior Year Transfers From Restricted Funds Should Be Returned
- 2003-17 The County Should Limit Expenditures For First Half Of Each Fiscal Year
- 2003-18 The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

- 2003-19 The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- 2003-20 The County Should Comply With KRS 64.140, Which Requires That Invoices be Paid Within 30 Working Days
- 2003-22 Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made
- 2003-23 The Jailer Should Maintain Receipts And Disbursements Journals For Jail Canteen Operations
- 2003-25 The Jail Canteen Should Have An Interest Bearing Checking Account
- 2003-27 The County Should Require Contractors To Submit Certifications Regarding Suspension And Debarment
- 2003-28 The County Should Submit All Applicable Reports As Required By Grant Agreements

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rockcastle County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rockcastle County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- 2003-05 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank On The County's 4th Quarter Financial Report
- 2003-06 Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger
- 2003-07 Disbursements Listed On Fourth Quarter Financial Report Should Agree With Disbursements Ledger
- 2003-10 The County Treasurer Should Resolve Unexplained Variances When Preparing Bank Reconciliations
- 2003-11 The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities
- 2003-12 The County Treasurer Prepare A Bank Reconciliation For The Payroll Revolving Account
- 2003-21 The Rockcastle Fiscal Court Lacks An Adequate Segregation Of Duties
- 2003-24 The Jailer Should Prepare Monthly Bank Reconciliations For The Jail Canteen Account
- 2003-26 The County Treasurer Should Properly Prepare A Federal Monies Worksheet

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 26, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Rockcastle County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Rockcastle County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rockcastle County's management. Our responsibility is to express an opinion on Rockcastle County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rockcastle County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rockcastle County's compliance with those requirements.

In our opinion, Rockcastle County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

2003-27 The County Should Require Contractors To Submit Certifications Regarding Suspension
And Debarment

2003-28 The County Should Submit All Applicable Reports As Required By Grant Agreements



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Rockcastle County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rockcastle County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 26, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Rockcastle County.
2. Nine (9) reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. Nine (9) of the conditions are reported as material weaknesses.
3. Seventeen (17) instances of noncompliance material to the financial statements of Rockcastle County were disclosed during the audit.
4. Two (2) reportable conditions disclosed during the audit of the major federal awards programs are reported in the Independent Auditor's Report. The conditions are not reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards programs for Rockcastle County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Rockcastle County are reported in Part C of this schedule.
7. The programs tested as major program was Federal Emergency Management Agency (FEMA) monies: (FEMA 83.544)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Rockcastle County was not determined to be a low-risk auditee.

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS:

Reference Number 2003-1

The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts

The county did not maintain two appropriation ledgers as required by the Uniform System of Accounts, which is stipulated by the Governor's Office for Local Development. The Uniform System of Accounts states, "The appropriation expenditure ledgers are to be maintained independently by the office of the county judge/executive and the county treasurer. Reconciliations should be made at least monthly in order to insure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriation expenditure ledger within the office of the county judge/executive independently from the computer system in the treasurer's office." There was only one appropriation ledger maintained by the county. The county treasurer maintained the Jail Fund section of the appropriations ledger and the Finance Officer maintained all other funds. The two sections were then combined into one complete appropriations ledger. As a result of only one appropriation ledger being maintained, there were errors on the 4th Quarter Financial Report. These errors would have been found and could have been corrected by maintaining dual ledgers and reconciling them at least once monthly, as required by the Uniform System of Accounts. We recommend that the county comply with the Uniform System of Accounts by maintaining two appropriation ledgers in the future.

County Judge/Executive George Carloftis' Response:

We will keep two appropriation ledgers in the future.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-2

The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System of Accounts

The county treasurer did not maintain a Check Distribution Ledger as required by the Uniform System of Accounts. The Uniform System of Accounts requires that a Check Distribution Ledger be maintained. A Check Distribution Ledger is defined as “a chronological listing of daily disbursements by funds. The ledger must indicate the date, the check number, the payee, the account code and the amount. *(A separate column should be included for investments. Checks issued for the purpose of investments are to be recorded in the investments column and should balance to the investments journal.)* Checks are to be posted numerically and all checks are to be recorded, including voided checks. We recommend that the county comply with the Uniform System of Accounts by maintaining a Check Distribution Ledger in the future.

County Judge/Executive George Carloftis’ Response:

We have one for Calendar Year 2004 and will maintain in the future.

Reference Number 2003-3

The County Should Properly Account For Encumbrances

The county did not properly account for encumbrances as required by the Governor’s Office for Local Development (GOLD). The county did not include encumbrances on the face of the 4th Quarter Financial Report; however, they were able to provide a list of items that made up the amount of encumbrances. We recommend that the county properly maintain encumbrances as required by the Governor’s Office for Local Development. The “Instructional Guide For County Budget Preparation & State Local Finance Officer Policy Manual” states, “Enter the total dollar amount of unpaid purchase orders from the purchase order journal”. We recommend that the county maintain a purchase order journal in the future and use the amounts from the journal as the encumbrances listed on the quarterly report.

County Judge/Executive George Carloftis’ Response:

This is being done now.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-4

Budget Amendments Should Be Properly Recorded In Financial Statements

We found budget amendments that were improperly posted in the financial records and thereby, incorrectly reported on the quarterly financial statement. This condition allowed inaccurate financial reports to be prepared, used by the fiscal court, and filed with the Governor's Office for Local Development. This also resulted in budget revenues not agreeing with budgeted expenditures on the 4th Quarter Financial Report. We recommend budget amendments be properly posted, reconciled, and reported in the financial records and quarterly reports. We recommend the county treasurer follow the Uniform System of Accounts, established under the authority of KRS 68.210, guidelines for posting and recording budget amendments, in the future.

County Judge/Executive George Carloftis' Response:

We agree. We are ensuring accuracy now.

Reference Number 2003-5

The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank On The County's 4th Quarter Financial Report

The cash balance per the county's books as stated on the 4th Quarter Financial Report does not agree with the reconciled cash balance per the bank as stated on the 4th Quarter Financial Report. These amounts should agree with each other. The difference results from either cash receipts or expenditures not being properly posted on the county's books. The General Fund differed by \$870, Road Fund differed by \$1,737, Jail Fund differed by \$1,319, 911 Fund differed by \$4, and the CSEPP Fund differed by \$22. We recommend that the county treasurer investigate and resolve any differences between the county's book balance and the reconciled bank balance, in the future.

County Judge/Executive George Carloftis' Response:

The County Treasurer will try to reconcile in the future.

Reference Number 2003-6

Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger

We were unable to trace the receipts listing included with the 4th Quarter Financial Report back to the receipts ledger maintained by the county for several of the receipt accounts. This results in the 4th Quarter Financial Report being incorrect. We recommend that controls be established where the Quarterly Financial Reports are reviewed for accuracy before being submitted to the Governor's Office for Local Development. The receipt listing included with the reports should always agree with the county's receipts ledger.

County Judge/Executive George Carloftis' Response:

We will try to get corrected.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-7

Disbursements Listed On Fourth Quarter Financial Report Should Agree With Disbursements Ledger

We were unable to trace the disbursements listing included with the 4th Quarter Financial Report back to the disbursements ledger maintained by the county for several of the disbursement accounts. This results in the 4th Quarter Financial Report being incorrect. We recommend that controls be established where the Quarterly Financial Reports are reviewed for accuracy before being submitted to the Governor's Office for Local Development. The disbursement listing included with the reports should always agree with the county's disbursements ledger.

County Judge/Executive George Carloftis' Response:

We will try to get corrected.

Reference Number 2003-8

The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County

The county judge/executive did not budget the Kentucky Country Music Hall of Fame fund and the Animal Shelter Dog License fund for the fiscal year ending June 30, 2003. KRS 68.240 (1) states, "The county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year. The proposed budget shall be classified into budget units as outlined in subsection (2) of this section. In addition to preparing a reasonable estimate of the funds actually needed for both general and special purposes, the county judge/executive shall prepare an estimated statement of receipts to be anticipated from local, state, and federal sources. The county judge/executive shall submit the proposed budget and estimate of receipts to the fiscal court by May 1 of each year." We recommend the county judge/executive prepare a budget for all funds to be in compliance with KRS 68.240 (1).

County Judge/Executive George Carloftis' Response:

These were handled through amendments during the year.

ROCKCASTLE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-9

The County Did Not Maintain Inventory Records As Required By The Governor's Office For Local Development

The county did not maintain inventory records as required by the Governor's Office for Local Development. The Governor's Office for Local Development's *State Local Finance Officer Policy Manual* states that "For purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount and have a useful life of greater than one year."

The asset inventory listing should provide the following detail:

- Property Tag Number
- Asset Description
- Serial Number – if applicable
- Quantity – if applicable
- Cost (or FMV of donated asset at date of donation)
- Date of acquisition
- Date of disposal (track all disposals for entire fiscal year)
- Property location (by department, building, & room number)
- Manager/individual responsible

It further states that the following procedures should be used:

- "Record – An asset inventory record should be prepared for each asset acquisition above \$100, and have a useful life of greater than one year. The fixed asset record must identify the asset, cost, date acquired, date of disposal, fund charged, property location, manager/individual responsible, and other information. A 'Physical Property Record' or 'Real Estate Record' must be completed for each asset.
- Inventory – An annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting difference must be reconciled, explained, and documented.
- Updating – The asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset inventory listing modifications."

We recommend that the fiscal court adopt the procedures and documents set forth by the Governor's Office for Local Development's *Handbook and Instructional Guide for County Budget Preparation & State Local Finance Officer policy Manual*. Copies of blank forms are provided in the manual for county personnel to use.

County Judge/Executive George Carloftis' Response:

We will work on this.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-10

The County Treasurer Should Resolve Unexplained Variances When Preparing Bank Reconciliations

The county treasurer prepared bank reconciliations for some funds. We found during the review of these reconciliations that there are sometimes variances between the reconciled bank balance and the balance per the county treasurer's records. These variances are not investigated and resolved. As a result of this, the auditors had to spend additional time making adjustments to the county's financial statements in order for the cash balance reported in the audit report to agree with the reconciled bank cash balances. We recommend that the county treasurer investigate and resolve all variances when preparing bank reconciliations.

County Judge/Executive George Carloftis' Response:

County Judge agrees.

Reference Number 2003-11

The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities

We found during the review of the payroll revolving account that the account should balance to \$500 since it is only used for the accumulation of monies to pay payroll items. The amount of \$500 was what was deposited to start the account. The county did not maintain a schedule of liabilities for the account at June 30, 2003; therefore, we could not determine whether or not there was a surplus or a deficit in the account at June 30, 2003. We recommend that county personnel maintain a schedule of liabilities, which will provide information needed to make a determination of whether the balance in the payroll account is sufficient.

County Judge/Executive George Carloftis' Response:

This is generally tax liabilities and employee benefits not yet paid. We will reconcile in the future.

Reference Number 2003-12

The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account

We found during our review of the county's payroll revolving account, that the county treasurer did not reconcile the bank balance back to the book balance for the account. The county treasurer should always prepare bank reconciliations for all bank accounts of the county. We recommend that adequate records be maintained to account for all payroll related items and that the bank balance be reconciled back to these records in the future.

County Judge/Executive George Carloftis' Response:

We will reconcile in the future.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-13

The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Authorizations Set By The Governor's Office For Local Development

The County Judge/Executive's salary was not paid in accordance with the salary schedule set by the Governor's Office for Local Development (GOLD). The County Judge/Executive received \$60,275 as salary during calendar year 2002. The salary set by GOLD for calendar year 2002 is \$62,259. This results in a salary underpayment to the Jude/Executive in the amount of \$1,984. We recommend that the fiscal court pay \$1,984 to the County Judge/Executive in order to be in full compliance with the salary approved by GOLD.

County Judge/Executive George Carloftis' Response:

We will look into this matter and try to resolve this issue.

Reference Number 2003-14

The County Should Not Participate In Related Party Transactions

The county conducted business with Brodhead Farm Equipment, which is owned by Magistrate Billy McKinney's brother. The county paid Brodhead Farm Equipment \$11,247.53 for equipment, and parts during the fiscal year ending June 30, 2003. In addition, county treasurer, Joseph Clontz, owns a CPA Firm, which was paid \$3,000 to perform payroll services for the county. We recommend the County Ethic's Commission review these transactions to determine if they complied with the county's ethics code. The County Attorney should then take necessary action based upon the ruling issued by the ethics commission.

County Judge/Executive George Carloftis' Response:

Quotes were obtained, and Brodhead Farm Equipment submitted the best price, and has always been disclosed. The Judge will check into this.

Reference Number 2003-15

The Fiscal Court Should Approve All Transfers

The Rockcastle County Fiscal Court could not provide documentation that approval was granted for cash transfers. KRS 68.290 states: "The fiscal court may transfer money from one (1) budget fund to another to provide for emergencies or increases or decreases in county employment pursuant to KRS 64.530 (4). The order of the fiscal court making the transfer shall show the nature of the emergency or personnel increase or decrease and the reason for making the transfer. The fiscal court shall not have any power to transfer money from any sinking fund or special fund raised for a specific purpose until the obligation or purpose for which the fund was raised has been satisfied." We recommend the fiscal court approve all transfers in the future and provide documentation within the minutes to be in compliance with KRS 68.290.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-15 (Continued)

The Fiscal Court Should Approve All Transfers (continued)

County Judge/Executive George Carloftis' Response:

We will include in the minutes in the future.

Reference Number 2003-16

Prior Year Transfers From Restricted Funds Should Be Returned

During fiscal year ending June 30, 2000, the county transferred restricted Road and Bridge monies to the Disaster and Emergency Services Fund (DES), without returning it. As of June 30, 2001, the amount due the Road and Bridge Fund from the DES Fund was \$1,843. During the fiscal year ending June 30, 2000, the county transferred restricted Jail Funds to the General, Road and Bridge Fund, and the Jail Canteen Account. The restricted funds were not returned to the Jail Fund. As of June 30, 2001, the General Fund owed \$4,094, the Road and Bridge Fund owed \$13,010, and the Jail Canteen Account owed the Jail Fund \$255.

During the fiscal year ending June 30, 2000, the county transferred restricted Local Government Economic Development Fund (LGED) monies to the General Fund, without returning them. As of June 30, 2001, the amount due the LGED Fund was \$21,571.

It was recommended in the prior year audit report that the monies be returned to the restricted county funds. As of June 30, 2003, the auditor saw no signs of these funds being returned. We recommend that the county return these monies to the restricted county funds.

County Judge/Executive George Carloftis' Response:

We will go through the minutes and follow up on this.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-17

The County Should Limit Expenditures For First Half Of Each Fiscal Year

The Road, CSEPP, Animal Shelter, and Kentucky Country Music Hall of Fame Funds expended more than 65% of their budgets as of December 31, 2002. Except in case of an emergency concerning which the county judge/executive, the fiscal court, the state local finance officer unanimously agree in writing, and, except for encumbrances or expenditures from the county's road fund, no county shall, during the first half of any 4th fiscal year beginning with the fiscal year 1999, encumber or expend more than 65% in any fund budgeted for that fiscal year, not counting as current funds any budgetary allotments for or payments of principal and interest of bonded indebtedness. Prior to encumbering or expending any funds from the road fund during the first half of any 4th fiscal year which exceed 65% of the amount budgeted, the fiscal court shall assure that there are sufficient funds remaining in the General Fund to provide for the excess encumbrance or expenditure from the Road Fund on a dollar for dollar basis. The Road Fund expended \$140,433 in excess of the 65% of their budget as of December 31, 2002. The General Fund only had \$37,210 as of that date. We recommend that the county not expend more than 65% of any budgeted fund for the first half of the fiscal year, except the Road Fund. When and if the county decides to expend more than 65% of the Road Fund's budget, they should ensure enough monies are on hand in the General Fund to cover the overage.

County Judge/Executive George Carloftis' Response:

We understand.

Reference Number 2003-18

The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

The fiscal court did not review the administrative code during the fiscal year as required by KRS 68.005 (2), which states that the fiscal court shall review the county administrative code during the month of June and may, by a two-thirds majority of the fiscal court, amend the County's administrative code at that time. We recommend compliance with this statute in the future.

County Judge/Executive George Carloftis' Response:

We did this in the current year.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-19

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On August 31, 2002, \$365,096 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive George Carloftis' Response:

We will get this corrected.

Reference Number 2003-20

The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days

During the course of our audit, we found that numerous invoices were not paid in a timely manner. KRS 65.140 states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. We recommend that the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

County Judge/Executive George Carloftis' Response:

We agree.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-21

The Rockcastle Fiscal Court Lacks An Adequate Segregation Of Duties

The Rockcastle County Fiscal Court lacks an adequate segregation of duties. We recommend that a qualified office employee independent of check writing and posting duties, match purchase orders to checks and invoices. Also we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the treasurer and may reduce audit costs in the future. Initialing the purchase orders, and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of these segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

County Judge/Executive George Carloftis' Response:

We have hired a finance officer and assistant and it will be better in the future.

Reference Number 2003-22

Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made

We found during our testing of expenditures, that the fiscal court minutes did not include approval for jail fund invoices. The fiscal court is required to approve all invoices prior to payment being made by the county. We recommend that the fiscal court approve all invoices for payment prior to payment being made in the future, and document within the minutes.

County Judge/Executive George Carloftis' Response:

Okay.

Reference Number 2003-23

The Jailer Should Maintain Receipts And Disbursements Journals For Jail Canteen Operations

The Jailer did not maintain receipts and disbursements journals for jail canteen operations during the fiscal year ending June 30, 2003. The Jailer uses the jail canteen checkbook to record canteen transactions, however, the State Local Finance Officer Policy Manual requires daily posting to a receipts journal. In addition, the manual requires posting to a disbursements journal when expenditures are made. We recommend that the Jailer comply with these requirements by maintaining receipts and disbursements journals in the future.

County Jailer's Response:

I have asked for assistance in starting the needed journal. I still need that assistance.

Auditor's Reply: APA staff has provided additional assistance to the jailer's bookkeeper.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

B. NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-24

The Jailer Should Prepare Monthly Bank Reconciliations For The Jail Canteen Account

The Jailer did not complete bank reconciliations for the jail canteen account during the fiscal year ending June 30, 2003. We recommend that the Jailer prepare bank reconciliations on a monthly basis for the jail canteen account.

County Jailer's Response:

Ok

Reference Number 2003-25

The Jail Canteen Should Have An Interest Bearing Checking Account

The jail canteen is currently not earning interest on their checking account. According to KRS 66.840 (1), the county may invest or reinvest money subject to its control. We recommend the county jailer comply with this statute by depositing all monies into an interest bearing checking account.

County Jailer's Response:

Ok

Reference Number 2003-26

The County Treasurer Should Properly Prepare A Federal Monies Worksheet

The county treasurer did not properly prepare a federal monies worksheet. The county treasurer should prepare a correct federal monies worksheet that details the federal grants received and expended during the fiscal year. It should also contain grant numbers, CFDA numbers, federal agencies making the awards, state pass-through agencies, and program names. All counties must have a Single Audit performed by March 31, following the fiscal year end if they expend in excess of \$300,000 of federal funds. Auditors use the federal monies worksheet in order to schedule county audit subject to Single Audit requirements. If the Federal Monies Worksheet is not prepared correctly, then the auditor cannot make a clear determination of whether or not a Single Audit is necessary. When required, if a Single Audit is not performed by the deadline, the county could be in danger of losing federal funding in the future. We recommend that this worksheet be properly prepared in the future.

County Judge/Executive George Carloftis' Response:

We are going to be tracking this better in the future.

ROCKCASTLE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The County Treasurer Did Not Maintain A Check Distribution Ledger As Required By The Uniform System Of Accounts
- The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank
- The County Should Comply With KRS 65.140, Which Requires That Invoices Be Paid Within 30 Working Days
- Budget Amendments Should Be Properly Recorded In Financial Statements
- The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts
- The Fiscal Court Should Review Administrative Code Annually As Required By KRS 68.005
- The County Treasurer Should Prepare A Schedule Of Expenditures Of Federal Awards
- The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government
- Prior Year Transfers From Restricted Funds Should Be Returned
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Should Enter Into A Written Agreement With The Depository Institution
- The County Should Not Participate In Related Party Transactions
- Receipts Listed On Fourth Quarter Financial Report Should Agree With Receipts Ledger
- The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account
- Jail Invoices Should Be Approved By The Fiscal Court Prior To Payment Being Made
- Lacked Adequate Segregation Of Duties

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT

Reference Number 2003-27

The County Should Require Contractors To Submit Certifications Regarding Suspension And Debarment

During our audit of the Federal Emergency Management Agency (FEMA) monies, the county could not provide copies of the certifications regarding suspension and debarment as required for contractors who perform work on projects funded with federal dollars. We recommend the county require all contractors performing work on projects funded with federal monies submit the required certifications regarding suspension and debarment.

County Judge/Executive George Carloftis' Response:

We will do this in the future.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference Number 2003-28

The County Should Submit All Applicable Reports As Required By Grant Agreements

During our audit of Federal Emergency Management (FEMA) monies, it came to the auditor's attention that the Rockcastle Fiscal Court was not submitting quarterly progress reports as required within the grant agreement. We recommend the Rockcastle Fiscal Court submit all applicable reports as required by the grant agreement to be in compliance.

County Judge/Executive George Carloftis' Response:

We will submit in the future.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ROCKCASTLE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

| Federal Grantor Program Title <u>Grant Name (CFDA #)</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures</u> |
|---|--|--------------------------|
| Cash Programs: | | |
| <u>U.S. Department of the Interior</u> | | |
| Passed-Through State Department of Natural Resources: | | |
| Federal Entitlement (CFDA #15.226) | | <u>\$ 32,403</u> |
| <u>U.S. Department of Commerce</u> | | |
| National Oceanic and Atmospheric Administration - Passed-Through Eastern Kentucky PRIDE, Inc.: | | |
| PRIDE (CFDA #11.469) | | <u>87,135</u> |
| <u>U. S. Federal Emergency Management Agency</u> | | |
| Passed-Through State Department of Military Affairs: | | |
| Disaster and Emergency Assistance Grant Coordinator Salary (CFDA #83.503) | | 5,179 |
| FEMA Reimbursement (CFDA #83.544) | | 229,860 |
| CSEPP (CFDA #83.549) | | <u>98,337</u> |
| Total U.S. Federal Emergency Management Agency | | <u>333,376</u> |
| Total Cash Expenditures of Federal Awards | | <u><u>\$ 452,914</u></u> |

ROCKCASTLE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Rockcastle County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

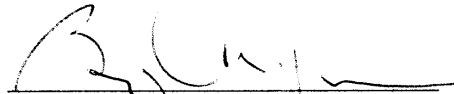
ROCKCASTLE COUNTY FISCAL COURT

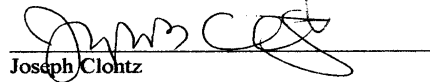
For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ROCKCASTLE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Rockcastle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


George "Buzz" Carloftis


Joseph Clontz

